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**FISCAL IMPACT STATEMENT**

**LS 7737**

**BILL NUMBER:** SB 464

**NOTE PREPARED:** Mar 21, 2003

**BILL AMENDED:** Mar 20, 2003

**SUBJECT:** Property tax matters.

**FIRST AUTHOR:** Sen. Borst

**FIRST SPONSOR:** Rep. Crawford

**BILL STATUS:** CR Adopted - 2<sup>st</sup> House

**FUNDS AFFECTED:**    **GENERAL**  
                          **X DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill requires the Department of Local Government Finance to adjust maximum cumulative fund rates, school capital project fund rates, and racial balance fund rates to permit the maintenance of fund levies after the application of inventory exemptions and deductions.

The bill adjusts the timing of adoption of an ordinance to Use Economic Development Income Tax revenue to provide increased homestead credits to offset inventory deductions and provides that the credits are not required to be uniformly applied.

The bill adjusts assessed value qualification limits for certain deductions and state property tax rates for the state fair and state forestry to account for reassessment.

Under certain circumstances for taxes payable in 2002, the bill also permits a county auditor to allow an enterprise zone inventory tax credit based on an application that was not timely filed.

**Effective Date:** July 1, 2003.

**Summary Statement:** The cost estimates and the estimates of property tax shifts that were calculated for HEA 1001-2002(ss) assumed that total deductions and total levies would remain unchanged. The changes made by this bill to deduction qualifications and tax rates are in line with the predicted impact of HEA 1001-2002(ss).

**Explanation of State Expenditures:**

**Explanation of State Revenues:** *State Property Tax Rates:* Under current law, the state imposes a property tax rate of \$0.0011 per \$100 AV for the State Fair and a \$0.0022 rate for State Forestry for a total rate of \$0.0033 per \$100 AV. The revenue generated by \$0.00004 of the \$0.0022 State Forestry rate is directed to the State Budget Agency for database management. In FY 2002, these rates generated \$2.2 M for the State Fair and \$4.1 M for State Forestry of which about \$70,000 was directed to the Budget Agency.

As a result of the current real property reassessment and the passage of HEA 1001-2002(ss), the statewide total net assessed value for both real and personal property is expected to rise by about 51.2% for property taxes payable in CY 2003. Because of additional changes that the act made that are first effective with CY 2004 property taxes, the 51.2% increase is expected to be reduced to an increase level of about 44.1% in CY 2004. There were additional changes made that take effect with taxes paid in CY 2007, bringing the final total AV increase level to 38.3%. These increases in AV will generate approximately \$1.6 M in additional state property tax in FY 2003, \$3.0 M in FY 2004, and \$2.8 M in FY 2005.

This bill would reduce the state property tax rates to compensate for the rise in assessed value. The proposal reduces the tax rates to \$0.0008 for the State Fair and \$0.0016 for State Forestry, of which the revenue generated by a rate of \$0.00003 would be directed to the State Budget Agency. These tax rates would generate roughly the same amount of revenue in CY 2007 as the old rates with the old values would have raised.

The bill does not change the rates for CY 2003 so the revenue received in CY 2003 will still increase. This increase, under current law, is estimated at about \$1.6 M each for FY 2003 and FY 2004. For CY 2004 through CY 2006 the new rates would generate slightly more revenue than the old rates and values would have. However, as counties adopt the county option inventory deduction, this increase will evaporate.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) *Cumulative Fund Rates:* The passage of HEA 1001-2002(ss) expanded the current interstate commerce exemption for a manufacturer's finished goods that are destined for out-of-state to a manufacturer's raw materials and work in process that are destined for out-of-state. This additional exemption will reduce the assessed value of inventory by an estimated 40% beginning with property taxes paid in CY 2004. In addition, all inventory AV will be eliminated by the 2006 pay 2007 tax year. Counties also have the option of speeding up the total inventory AV elimination.

The total inventory net assessed value is about \$14.5 B. The removal of this assessed valuation will cause a shift of the property tax burden from inventory owners to all taxpayers, except that this shift won't include any cumulative fund levies. Cumulative funds, including those for civil units and school capital projects funds are rate capped and may not be able to absorb the rate increase that is caused by a smaller AV base.

In CY 2002, there were 1,526 cumulative and school capital projects funds (cumulative funds) with a total gross property tax levy of \$754.9 M. The inventory AV accounts for about \$59 M of this total. There is enough room under the rate caps to increase the tax rates to generate about \$11 M of this levy from the assessed value of other taxpayers. There will be a levy reduction in the cumulative funds of at least \$48 M in at least 971 cumulative funds.

The bill also addresses the Fort Wayne Community School Corporation's Racial Balance Fund property tax rate. While this fund is not a cumulative fund, the rate is capped at \$0.0833 per \$100 of assessed value and will also experience a revenue reduction when inventory AV is removed from the tax base.

This bill would require the DLGF to adjust the maximum cumulative, capital projects, and racial balance fund tax rates to account for two AV reductions. The first adjustment would be for the AV lost due to the expansion of the interstate commerce exemption effective with taxes paid in CY 2004. The second adjustment would be made either in the year that a county adopts the 100% inventory deduction or in 2007, when the statewide deduction takes effect. The unit would then be able to generate the same levy with the adjusted maximum rate as it did under the old maximum rate with the old AV base.

*Deduction AV Limits:* Under current law, Indiana allows various property tax deductions for homeowners who meet certain requirements. Three such deductions - the "Over 65" deduction, the disabled veteran deduction, and the WWI veteran deduction all have an assessed value limitation. That is, the assessed value of the taxpayer's home must be under a specified amount in order to qualify for the deduction.

The elderly deduction is a \$6,000 deduction available to taxpayers who are 65 years old or older with a gross income under \$25,000 and with a home assessed value under \$69,000. The total amount of this deduction for taxes paid in CY 2002 was \$611.6 M.

The disabled veteran deduction is a \$6,000 deduction available to honorably discharged veterans who are totally disabled or are at least age 62 with at least a 10% disability. The home's assessed value may not exceed \$54,000. The World War I veteran deduction is a \$9,000 deduction available to WWI veterans whose home's assessed value may not exceed \$78,000. The total amount of all veterans' deductions (also including the partially disabled and WWI survivors' deductions) for taxes paid in CY 2002 was \$407.2 M.

As a result of the current real property reassessment, the statewide total gross assessed value of residential property is expected to rise by 108%. Under current law, an average home with a market value of \$100,000 might have had an assessed value of about \$48,000. The home's new assessed value will be \$100,000. Because of the change in valuation method, a substantial number of taxpayers who qualified for the deduction through CY 2002 may not qualify beginning with property taxes paid in CY 2003. This bill would restore eligibility to most of these taxpayers beginning with property taxes paid in CY 2004.

*Local Homestead Credits:* Under current law, each county may adopt an ordinance to provide a 100% inventory deduction for taxes paid in CY 2004, CY 2005, and CY 2006. This deduction will apply statewide beginning with property taxes paid in CY 2007. Counties that elect to provide the deduction for 2004, 2005, and 2006, and then all counties beginning in 2007, are permitted to use County Economic Development Income Tax (CEDIT) proceeds to pay for additional Homestead Credits in the county in order to mitigate any shift of the tax burden from inventory property to homestead property. This additional homestead credit, if adopted by the county, must be applied at a uniform credit rate across the county.

This bill would permit counties that adopt the additional homestead credit to elect (1) to apply the credit through a uniform statewide credit rate (required under current law) or (2) to allocate the credit amount among the county's taxing districts on a pro rata basis using the proportion of the county's inventory valuation in the district as the basis.

If the inventory in a county is concentrated in one or more areas rather than spread throughout the county, the uniform homestead credit rate will result in some taxpayers receiving more credit than necessary and some not receiving enough. The allocated credit that would be permitted under this bill would more equitably distribute the credits in counties with a non-uniform inventory distribution. The total amount of local homestead credits and the CEDIT rate necessary to generate them would not be affected by this bill.

Currently, a county that wishes to adopt an ordinance allowing the inventory deduction must do so before January 1 of the assessment year in which the deduction would first take effect. Counties that wish to adopt an ordinance allowing the additional homestead credit funded by CEDIT must do so after January 1 and before April 1. The bill would allow counties to consolidate the two ordinances and adopt them before January 1.

*Enterprise Zone Credit:* Under this provision, a taxpayer who filed for an enterprise zone credit for taxes paid in 2002 on inventory after, but within 30 days, of the original due date of the claim form could receive the credit if approved by the county auditor. The county auditor would have to find that:

1. The application was no more than 30 days late;
2. The application would have been approved if timely filed;
3. There is support from local officials for the approval of the claim;
4. Approval will result in a significant assistance payment to the local urban enterprise association; and
5. The approval will promote economic development activities in the enterprise zone.

There is one identified taxpayer who could benefit from this provision. The estimated credit that could be paid, if approved locally, is \$1 M. In addition, there could be other, unknown, taxpayers who might qualify under this provision.

Property tax credits reduce the amount of property taxes available to distribute to local civil taxing units and school corporations. However, any fiscal impact would depend on local action in authorizing the late-filed credit.

**State Agencies Affected:** Department of Local Government Finance; State Budget Agency; Department of Natural Resources; State Fair Board.

**Local Agencies Affected:** Most local civil units and school corporations; County auditors; County councils; County income tax councils.

**Information Sources:** Local Government Database.

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